

AR78



EMCO LIMITED  
1976 ANNUAL REPORT





## FINANCIAL SUMMARY

Dollars in thousands except for shares

	1976	1975
Sales	<u>\$178,135</u>	<u>175,834</u>
Earnings before extraordinary items	\$ 3,280	6,564
Extraordinary items	<u>136</u>	<u>228</u>
Net earnings	<u>\$ 3,416</u>	<u>6,792</u>
Per common share:		
Basic earnings:		
Before extraordinary items	\$ .72	1.45
Including extraordinary items	.75	1.50
Fully diluted earnings:		
Before extraordinary items	.71	1.39
Including extraordinary items	.74	1.43
Capital expenditures	\$ 5,439	4,096

### Our Cover

Emco continues to make deep inroads into the Canadian plumbing, heating and industrial market. Extending this thrust, a fleet of 98 trucks logged over 1.9 million miles in 1976 carrying products from Factory and Supply warehouses to a coast-to-coast network of distribution outlets and jobsites across Canada.





## To Our Shareholders

Emco's 1976 earnings were disappointing. While sales advanced from \$176 million in 1975 to \$178 million in 1976, net earnings in the same period dropped by 50 per cent, from \$6,792,000. to \$3,416,000. On a fully diluted basis and including extraordinary items, per share earnings declined from \$1.43 to 74 cents.

Economic growth in Canada and around the world was sluggish in 1976. Varying degrees of inflation, labour unrest, low productivity, currency fluctuations and energy concerns combined to discourage investment and stifle industrial expansion. Consequently, the markets were extremely competitive and corporate profits were low.

At this time last year, your board endorsed the Federal Government's Anti-Inflation Program for Canada. The regulations that were subsequently announced and the manner of their implementation created many administrative difficulties. Worse still, ceilings on financial returns further dampened investment enthusiasm in Canada. On the other hand, the rate of inflation appears to have declined and the inflationary psychology accompanying it seems to have receded. Nevertheless, any continuation of restrictions on profits will negate the forces of economic growth. However, a withdrawal of the controls program, without a serious commitment to wage and to price restraints, could create another crippling inflationary spiral. What is more important is that labour and management look to the more urgent task of job creation and security through growth and increased productivity.

The developments in the Province of Quebec, which have led to speculation of that province separating from Canadian Confederation, is another matter of serious concern to all Canadian business. However, Emco has reaffirmed its commitment for growth in that province and recently opened a new \$3.5 million warehouse complex in the Montreal area. Any hasty retreat by business and industry from Quebec could fuel the flames of disorder and weaken the structure of Canada's economic unity.

Late in 1976, Emco successfully placed, with a major financial institution, two term notes totalling \$15,042,500 (\$10 million Canadian maturing December 16, 1986 and \$5 million U.S. maturing May 19, 1978.) This financing significantly improves our working capital ratio to 2.6:1 at year end. The interest rates on the borrowings float with the prime commercial paper lending rates of the lender and the notes are redeemable at par on reasonable notice to the lender.

The group operational reviews that follow describe our divisional performance and future prospects. Despite some bright spots, the short term outlook is not very promising. We are aware of the problems and uncertainties around the world and we are re-examining the goals and commitments of every division of our company to maximize cost efficiencies.

The long term prospects for our company are exciting and we are well positioned to meet the evolving needs of our market segments in the construction and petroleum industries. We have the resources, the management talent and the engineering capabilities to adapt and contribute to the forces of technological change. Our efforts in this direction are greatly strengthened by Masco Corporation, and we certainly look forward to their continuing support.

We acknowledge the efforts and the dedication of our employees around the world and on behalf of the Board of Directors, I thank them for their support through what has been a very difficult year.

C. N. Chapman,  
President and  
Chief Executive Officer

March 14, 1977



## Review of Operations

### PLUMBING AND INDUSTRIAL GROUP

#### Plumbing and Industrial Group

##### DIVISIONS

##### Emco Supply

Regional offices, Montreal, Toronto, Calgary; thirty-three branches across Canada distributing plumbing, heating and industrial piping supplies to mechanical contractors and industry.

Barrie	Ottawa
Belleville	Peterborough
Calgary	Prince George
Dryden	Quebec
Edmonton	Regina
Guelph	Saint John
Halifax	Sault Ste. Marie
(Dartmouth)	Saskatoon
Hull	Sherbrooke
Kitchener	St. Catharines
Lethbridge	St. John's
London	Sudbury
Medicine Hat	Terrace
Moncton	Toronto (Weston)
Montreal	Ville de Brossard
(Lachine)	Windsor
North Bay	Winnipeg
Oshawa	

##### General Manufacturing

- London Factory, London, Canada manufacturer of plumbing, heating and industrial piping products for sale to distributors.

- Emco Plastics Limited, Brampton, Ontario - manufacturer of plastic plumbing and piping components.

- Delta Faucet of Canada Limited, Bowmanville, Ontario - manufacturer of Delta and Delex faucets.

##### Canadian Clyde Tube Forgings Limited

Toronto, Ontario - supplier of steel welding fittings for industry.

Branches - Montreal, Vancouver, Edmonton, Seattle (Washington)

Housing starts in Canada climbed to an all-time high of 273,000 units in 1976, surpassing the previous year's record by 18 per cent. This increase was stimulated by a new Federal Housing Action Program, introduced in late 1975. The Federal Anti-Inflation Board's program, on the other hand, severely discouraged investment in expansion, causing a sharp drop in industrial construction. Activity in other sectors of non-residential construction also declined because of restraints in spending. Strikes in the Maritimes, Quebec and British Columbia further affected construction.

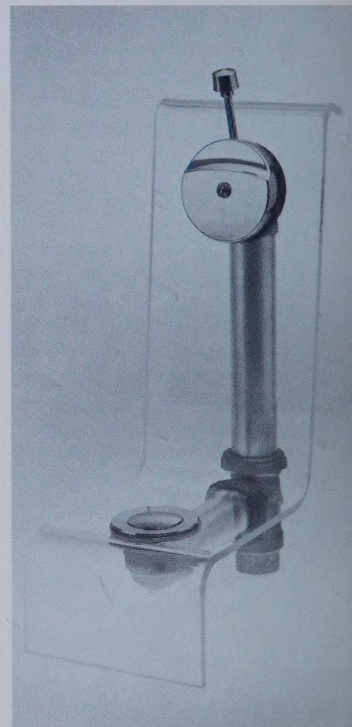
As a result of these and other factors, the market became extremely competitive, and although our group sales increased, earning margins were reduced.

##### General Manufacturing Division

Plumbing product sales increased substantially over forecast and we expect this trend to continue through 1977.

A segment of our copper fitting production was moved from London to Bowmanville, to allow for further expansion of our plating operation in London and considerable investment was made in tooling and machinery. Environmental improvements in the foundry area are nearing completion and a number of additional refinements to work environment in other plant areas and improvements in health protection programs are underway.

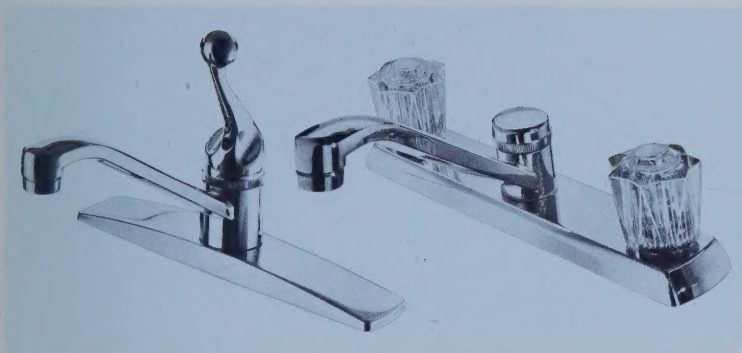
Streamlining of facilities and organizational structure for a more efficient flow of product through our central and regional warehouses is continuing and we expect to further strengthen customer service and market penetration.



*Mechanical bath waste and overflow fitting with positive drain action.*

New products introduced during 1976 included a push and pull mechanical drain waste valve for the bath and a revolutionary new compression joint for waterworks, called 'Successor'. Both products have been very well received.

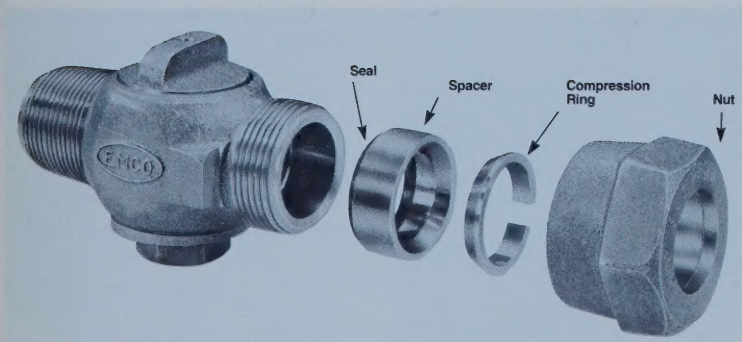
Manufacturing operations at our plastics plant in Brampton, which sharply increased in the latter part of 1975, continued unabated through 1976. Indications are that 1977 will be another busy year. While mushrooming competition and other uncertainties remain, our commitment to top quality products remains unchanged.



*The Delta single-handle and Delex two-handle washerless kitchen faucets.*

#### **Delta Faucet of Canada**

Delta Faucet of Canada Limited completed its first full year of operation as a wholly owned Emco subsidiary. This company was established in 1960 as an Emco-Masco partnership to market Delta single-handle washerless faucets in Canada. In July 1975, 18 months after Masco became a major Emco shareholder, Emco acquired, at book value, all of Masco's shares in this company.



*An Emco main stop with the new 'Successor' compression end connection. For use in water service lines.*

Under Emco's management, Delta Faucet of Canada, launched a new line of two-handle washerless faucets called Delex. This product launch and the marketing program for Delta faucets was supported by a new manufacturing facility in Bowmanville, Ontario, which commenced operations in early summer.

Both Delta and Delex faucets made significant inroads into the market in 1976 and now, reinforced by a larger sales force in Ontario and an aggressive national marketing and advertising program, we expect to gain a greater market share. An expansion of the plant is being planned to accommodate higher volumes in the existing range as well as additional product lines.

#### **Canadian Clyde Tube Forgings**

Canadian Clyde Tube Forgings Limited maintained its market share in a very difficult year for industrial products. The products of this Emco subsidiary, comprising welding fittings and flanges in carbon steel, stainless steel and various alloys, are used in marine, mining, petro-chemical, pulp and paper and other industries using piping. The volume of capital construction in these industries was substantially off in Canada during 1976 and price competition from both domestic and foreign suppliers was extreme.

CCTF established a branch outlet in Seattle, Washington, in 1976. This branch operation will give us the opportunity to determine the viability of further expansion in the United States market.

Management and organizational changes since 1975 have vastly improved the efficiency of this subsidiary and CCTF is now ready to take full advantage of any upturn in market demand.



*The new Montreal area warehouse, offering 4½ acres of floor space, includes many customer service features such as eight shipping docks for greater speed and convenience. The unloading facilities can accommodate six transports at a time in an enclosed area.*

### **Emco Supply**

Sales and profits from the central and western regions were satisfactory but a severe winter and lengthy construction strikes adversely affected eastern region sales. While this division contributed the largest share of earnings of the company, earnings in 1976 were below target.

During the year, construction commenced on a new warehouse complex to replace the facility on Jeanne-Mance Street in Montreal. Operations from this new warehouse started in February 1977.

This new complex is the largest warehouse of its kind in the industry. Located in Lachine, 15 miles west of Montreal, on an 11½-acre site, it offers 4½ acres of floor space. Total investment in this project is \$3.5 million.

The Supply division also opened new wholesale branch warehouses in St. John's, Newfoundland, and Dryden, Ontario. These two additions bring the total number of our supply outlets to 33.

### **Outlook for the Group**

Plumbing and Industrial Group

sales are directly related to construction in Canada. While the residential sector of the industry will likely show moderate growth through 1977, the hesitation in entrepreneurial investments within Canada and curtailments in government spending are expected to inhibit any significant growth in the industrial, commercial and institutional sectors in the country. Thus, there is little potential for significant increases in sales in the immediate future. However, modest gains in consumer spending and slow recoveries in industrial demand are expected to be made in the energy and mining fields and these developments will have favorable impact on our industry in the next few years.

In the meantime, we are consolidating our operations and continuing to increase our market share with a wider product offering, better products, a larger distribution network and more aggressive marketing. Our resources in engineering, technology, physical facilities, marketing know-how and management capabilities are stronger than ever.



*The new Delta Faucet of Canada plant in Bowmanville, Ontario, has a total floor area of 43,000 sq. ft.*



## Engineered Products Group

### DIVISIONS

**Research and Development Centre**  
Margate, England

**Wheaton Australia Pty. Limited**  
Sydney, Australia

**Emco Wheaton Industria E Comercio S.A.** (84% owned)  
Rio de Janeiro, Brazil

**Emco Wheaton U.K. Limited**  
Margate, England

**Emco Wheaton S.A.**  
Paris, France

**Emco Wheaton GmbH** (76% owned)  
Kirchhain, West Germany

**Emco Wheaton Inc.** – Conneaut,  
Ohio and Gulfport, Mississippi,  
United States

**Emco Wheaton (Japan), Limited**  
Yokohama, Japan

**Emco-Wheaton Limited**  
Toronto, Canada;  
Branches – Montreal, Calgary,  
Vancouver (Burnaby)

The Engineered Products Group manufactures and distributes engineered fluid handling equipment and systems used in the oil and petrochemical industries. These products, which are sold under the name Emco Wheaton, include: service station equipment, marine loading assemblies, storage tank equipment, swing joints, loaders and unloaders, tank truck equipment, hose end couplings, dry breaks and fleet refueling systems.

## Review of Operations

### ENGINEERED PRODUCTS GROUP

The year 1976 was a difficult year for the Group mainly due to reduced capital spending by the major oil and petrochemical companies, who are the principal end-users of our products.

At this time last year we had expected the market to improve, but the world consumption of petroleum products and petroleum handling equipment has continued to be at a low level.

### New Products

Swing joints for all fluid-handling applications continue to be one of our most important products, and during the year we completed the development of a new swing joint for cryogenic (Temperatures below  $-100^{\circ}\text{C}$ ) applications, such as LNG, ethylene and methane for marine and tank-truck loading and unloading applications.

Another new product is the refueling nozzle developed by Emco Wheaton U.K. Limited for helicopters. Designed initially for Britain's Ministry of Defence, the new universal nozzle allows safe refueling of helicopters without having to shut off the motors.

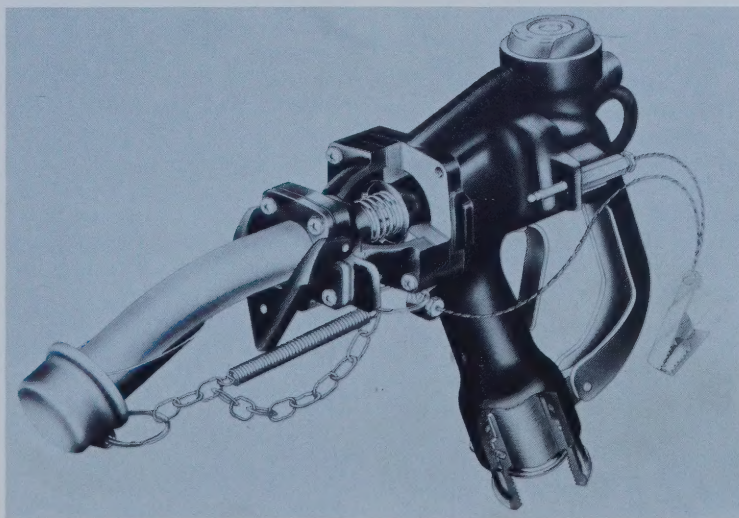
This product has wide-ranging safety advantages in military, off-shore, fire fighting and rescue operations. In addition, it can be used safely for open-fill refueling of all types of aircraft.

Development work continued in the equipment used for tank-trucks, and we now have a new and improved line of pneumatically-operated tank-truck equipment, such as emergency valves and vents to meet the changing needs of our customers.

Improvements were also made in the design of our vapour recovery nozzle for service station dispenser pumps. However, nozzle sales were adversely affected by continuing delays in the finalization of the regulations by several government agencies in the United States.

### Expanding Market Horizons

Two senior executives of the group, Dr. Keith Upton, director of our R. & D. Centre in Margate, and Keith Jacobs, our Far East regional sales manager, made an extensive visit to the People's



*The helicopter refueling nozzle was designed initially for Britain's Ministry of Defence by Emco Wheaton U.K. The new universal nozzle allows safe refueling of helicopters without having to shut off the motors.*

Republic of China at the invitation of that Government, for a presentation of our full range of products. The reception our executives received was most encouraging, and we expect that our marketing in this area will be worthwhile.

Our export activities have been strengthened with the appointment of Mr. John A. Parker to the newly-created position of export marketing manager. Mr. Parker has had extensive sales management experience in Eastern and Western Europe, the Middle East, Africa and South-East Asia.

We continue to increase our market penetration through the improved performance of our own operating divisions and our distributors in the world-wide markets, not only for our own Emco Wheaton products, but also for the products of other principals who we represent in certain markets.

### **The Americas**

Although there was no appreciable recovery in the market, the Canadian Division achieved a small increase in sales and a satisfactory improvement in profit. In the United States, vapor recovery nozzle sales were thwarted by delays in the final legislation regulating emission control at the dispensing end of the service station. The plant in Conneaut, Ohio, is heavily committed to vapor recovery systems embracing all stages of gasoline distribution.

The general demand in the United States for petroleum handling equipment was further dampened during the second half of the year by legislative proposals related to possible divestiture by major oil companies.

The new marine loading arm plant in Gulfport, Mississippi,



*In Hong Kong, Emco Wheaton marine arms unload a tanker.*

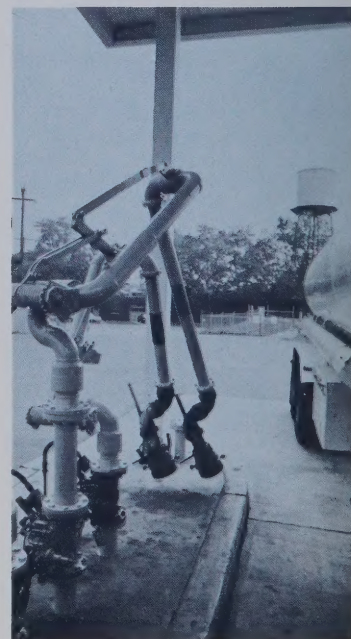
completed its first full year of operation in 1976. Despite the reduced volume of available business, we were satisfied with the progress of this operation during the year.

Sales and earnings of our Brazilian division were most encouraging, and construction has now started on a new, larger manufacturing facility in the suburbs of Rio de Janeiro. The new building with a manufacturing area of 20,000 sq. ft. will be ready for occupancy during the last half of 1977.

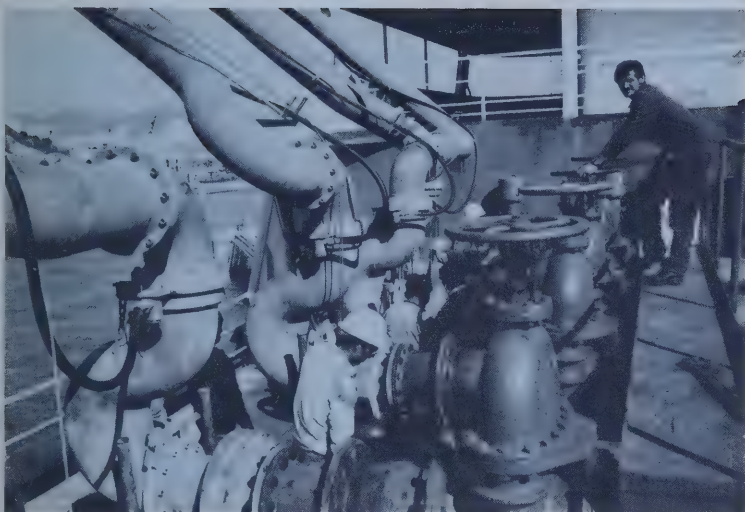
In addition to our own product line, this division represents several U.S. companies in Brazil which offer products related to our own equipment. We have an order for a large contract utilizing products of one of these suppliers which will be fabricated and assembled in the new plant.

### **Europe**

Financial results of the U.K. company were adversely affected by increased costs, and the reduced value of the pound sterling in relation to the dollar.



*Typical major oil company terminal showing Emco Wheaton tank truck loading arm.*



*Photo shows the swing joint being connected to the ship's manifold. The swing joint assembly allows the marine arm to move freely with the sway of the ship.*

The U.K. domestic market continued to be weak, although, export sales increased substantially due in part to the foreign exchange situation.

A prestigious order completed during 1976 was the supply of a marine arm installation in Flotta, on the Orkney Islands in Scotland, for handling North Sea crude oil. The U.K. Division also supplied fluid-handling equipment at the related refinery for off-loading this crude oil. During the year, a marine arm installation was completed in Hong Kong for handling crude oil from the People's Republic of China.

The division in France had a particularly good year, due in part to a large order for stainless steel loading arms shipped into Russia. The domestic market showed little recovery. However, indications are that the next three years will see a period of growth for equipment related to petroleum distribution in France.

In West Germany, sales and earnings were below the 1975

levels, but the division carried into this year a very substantial backlog of orders including several marine arms for East Germany. Prospects for growth in the East European market appear promising. To accommodate this opportunity and the expected recovery in Western Europe, construction was initiated in late 1976 for an addition to the present plant which is now nearing completion.

#### **Far East and Australia**

Sales of the Japanese division were disappointing as a result of a severe curtailment by the government of capital expenditures in the petroleum industry.

This division has expanded its capabilities in the manufacture of marine arms to include the 16" size, and any recovery in its domestic and export markets will offer promising opportunities.

The division located in Australia showed a decline in earnings, despite a 20 per cent increase in sales. However, the latter part of the year showed signs of an economic recovery and we expect 1977 to be a fairly good year.

#### **Outlook**

It appears that capital spending by the major oil companies will increase over the amounts spent in 1976, particularly in North America and Europe, which remain the principal markets for our products. The increased cost of crude oil has already caused a noticeable change in the priorities of the oil companies, and we are continually examining our own plans for product development and expansion.

While our sales, earnings and return on investment objectives were not met for 1976, we are still confident that they will be in the near future. We feel that we have the resources, both physical and human, to meet the emerging challenges in the specialized field of equipment for the transfer and control of liquids and gases.

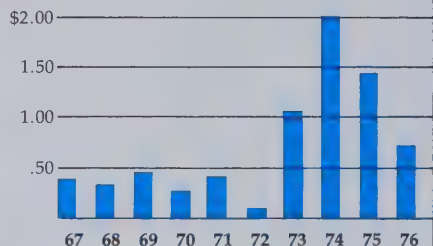
We continue to improve our product engineering capabilities at all locations; we are expanding our manufacturing facilities in Germany and Brazil; we have built-in capacity for increased production in most of our other operations. We have extended our marketing efforts to develop new markets and we are determined to achieve deeper market penetration throughout the world in order to generate increased sales and earnings.

Barring unforeseen crises in the supply and distribution of petroleum, we expect the next five years to be a period of steady growth in business as major oil companies increase and up-date their resources to meet world energy demands. The most optimistic view is that the dormant U.S. market for vapor recovery systems could become active in 1977, and that this pattern could extend to Europe over the next few years. While no firm assessment can be made for development in Eastern Europe and China, we believe these countries hold promising opportunities for our company.

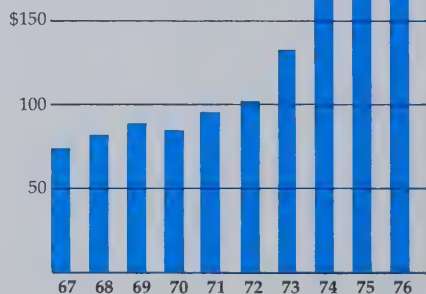


## Emco Limited and Subsidiaries Ten Year Financial Summary

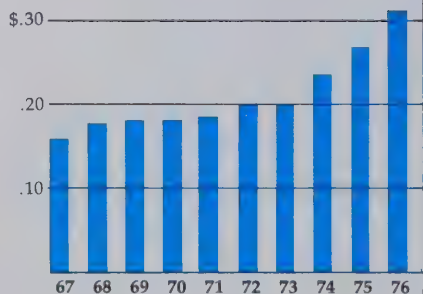
Basic Earnings per share before  
extraordinary items (1967-1976)



Sales less sales taxes  
(millions of dollars) (1967-1976)



Dividends per share  
(1967-1976)



SALES, LESS SALES TAXES .....	1976 \$178,133
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### CHANGES IN FINANCIAL POSITION

#### Funds provided:

Funds provided from operations.....	\$ 5,000
Increase in long-term debt.....	15,043
Issue of common shares:	
For cash .....	10,000
On conversion of 7% debentures.....	27,000
Proceeds on disposal of property and plant.....	
Total funds provided .....	20,423

#### Funds used:

Property, plant and equipment.....	5,433
Reduction in long-term debt:	
7% debentures.....	18,000
Other.....	72,000
Redemption of second preference shares.....	—
Dividends on second preference shares .....	—
Dividends on common shares .....	1,453
Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets.....	—
Other.....	378
Total funds used .....	8,173

Increase (decrease) in working capital .....	\$ 12,250
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Working capital at December 31 .....	\$ 47,833
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### COMMON SHARE RESULTS

#### Basic earnings:

Before extraordinary items .....	\$ .70
Including extraordinary items .....	.70

#### Fully diluted earnings:

Before extraordinary items .....	.70
Including extraordinary items .....	.70

Book value at December 31 .....	9.60
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Dividends paid .....	.30
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Return on shareholders' equity at January 1 (based on earnings before extraordinary items).....	%	7.0
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1975	1974	1973	1972	1971	1970	1969	1968	1967
<u>175,834</u>	<u>172,550</u>	<u>130,329</u>	<u>100,542</u>	<u>95,926</u>	<u>83,810</u>	<u>89,380</u>	<u>83,399</u>	<u>74,325</u>
8,784 633	10,310 —	5,032 280	1,673 —	2,774 6,000	2,267 5,000	4,439 —	2,509 —	2,513 3,867
53 7 55	— 4,890 152	— — 1,049	— 34 427	41 — —	91 — 24	2 — 60	33 — 169	88 — —
<u>9,532</u>	<u>15,352</u>	<u>6,361</u>	<u>2,134</u>	<u>8,815</u>	<u>7,382</u>	<u>4,501</u>	<u>2,711</u>	<u>6,468</u>
4,096	3,054	2,984	2,594	1,791	939	1,768	1,928	2,402
8 626 — — 1,265	5,776 555 — — 998	— 81 — — 756	34 123 — — 756	— 1,543 — — 723	— 3,605 442 7 689	— 638 239 17 687	— 258 297 25 686	— 948 357 35 623
— (638)	— (254)	75 (138)	214 17	— 201	— 231	— 26	— (37)	1,115 466
<u>5,357</u>	<u>10,129</u>	<u>3,758</u>	<u>3,738</u>	<u>4,258</u>	<u>5,913</u>	<u>3,375</u>	<u>3,157</u>	<u>5,946</u>
<u>4,175</u>	<u>5,223</u>	<u>2,603</u>	<u>(1,604)</u>	<u>4,557</u>	<u>1,469</u>	<u>1,126</u>	<u>(446)</u>	<u>522</u>
<u>35,579</u>	<u>31,404</u>	<u>26,181</u>	<u>23,578</u>	<u>25,182</u>	<u>20,625</u>	<u>19,156</u>	<u>18,030</u>	<u>18,476</u>
1.45 1.50	2.00 2.08	1.07 1.12	.14 .17	.45 .45	.33 .33	.47 .91	.39 .39	.43 .45
1.39 1.43 9.24 .27	1.91 1.97 8.02 .23	.87 .91 6.10 .20	.14 .17 5.20 .20	.43 .43 5.27 .18 <sup>3</sup> / <sub>4</sub>	.33 .33 5.02 .18 <sup>1</sup> / <sub>3</sub>	.47 .91 4.88 .18 <sup>1</sup> / <sub>3</sub>	.39 .39 4.15 .18	.43 .45 3.88 .16 <sup>1</sup> / <sub>4</sub>
18.1	32.0	20.5	2.7	8.9	6.7	11.3	10.0	11.0

## NOTES:

Amounts shown above are thousands of dollars with the exception of data under the heading common share results. Common share results reflect the 3 for 1 subdivision effective July, 1971.

In 1974, basic earnings per share and return on shareholders' equity are calculated on the assumption that the 7% convertible debentures converted into common shares during the year were converted on January 1, 1974.



Emco Limited

# Consolidated Balance Sheet

December 31, 1976

with comparative figures for 1975

Assets	1976	1975
Current assets:		
Cash .....	\$ 1,027,447	455,425
Marketable securities, at cost (quoted value \$172,218; 1975, \$163,351) .....	141,833	141,833
Trade accounts receivable, less allowance for doubtful accounts (\$1,643,300; 1975, \$1,615,759) .....	24,495,098	24,649,534
Inventories at the lower of cost or net realizable value .....	50,737,099	54,733,067
Prepaid expenses .....	940,311	973,051
Total current assets .....	77,341,788	80,952,910
Long-term receivables .....	280,151	72,207
Property, plant and equipment, at cost less depreciation (note 2)	20,990,895	17,225,099
Unamortized debt discount and expense .....	400,331	176,812
	<u>\$ 99,013,165</u>	<u>98,427,028</u>
Liabilities	1976	1975
Current Liabilities:		
Bank indebtedness .....	\$ 13,420,656	26,986,591
Accounts payable and accrued expenses .....	13,822,392	14,122,125
Dividends payable .....	363,185	332,445
Current portion of long-term debt .....	400,751	320,649
Income and other taxes payable .....	1,502,203	3,611,873
Total current liabilities .....	29,509,187	45,373,683
Deferred:		
Exchange translation gains .....	314,785	244,641
Income taxes .....	846,449	677,669
	<u>1,161,234</u>	<u>922,310</u>
Long-term debt (note 3) .....	24,238,161	10,098,688
Minority interest in subsidiary companies .....	223,526	220,966
Shareholders' equity:		
Capital stock, common shares (note 4) .....	5,630,810	5,525,700
Retained earnings .....	38,250,247	36,285,681
Total shareholders' equity .....	43,881,057	41,811,381
	<u>\$ 99,013,165</u>	<u>98,427,028</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board: **C. N. Chapman**, Director  
**J. W. Adams**, Director

**Emco Limited**  
**Consolidated Statement of Earnings**  
Year ended December 31, 1976  
with comparative figures for 1975

	1976	1975
Sales, less sales taxes:		
Plumbing and Industrial Group .....	\$150,386,201	148,694,320
Engineered Products Group .....	27,749,044	27,139,819
	<u>\$178,135,245</u>	<u>175,834,139</u>
Operating profit after minority shareholders' interest but before the undernoted items.....	\$ 11,738,594	18,227,799
Investment income.....	20,919	9,460
Equity in earnings of partially owned company .....	—	20,600
	<u>11,759,513</u>	<u>18,257,859</u>
Deduct:		
Depreciation .....	1,545,516	1,456,764
Interest on bank and other short-term advances .....	3,019,224	2,661,217
Interest on long-term debt .....	853,489	855,461
	<u>6,341,284</u>	<u>13,284,417</u>
Earnings before taxes on income .....		
	6,341,284	13,284,417
Taxes on income:		
Current .....	2,770,000	6,178,000
Deferred .....	291,000	542,000
	<u>3,061,000</u>	<u>6,720,000</u>
Earnings before extraordinary items .....	3,280,284	6,564,417
Extraordinary items.....	136,000	228,000
	<u>3,416,284</u>	<u>6,792,417</u>
Net earnings .....		
	\$ 3,416,284	6,792,417
Earnings per common share:		
Basic:		
Before extraordinary items .....	\$ .72	1.45
Extraordinary items.....	.03	.05
	<u>.75</u>	<u>1.50</u>
Including extraordinary items.....		
	.75	1.50
Fully diluted:		
Before extraordinary items .....	\$ .71	1.39
Extraordinary items.....	.03	.04
	<u>.74</u>	<u>1.43</u>
Including extraordinary items.....		
	.74	1.43

*See accompanying notes to consolidated financial statements.*



Emco Limited

## Consolidated Statement of Retained Earnings

Year ended December 31, 1976

with comparative figures for 1975

	1976	1975
Amount at beginning of year .....	\$36,285,681	30,758,119
Add net earnings.....	3,416,284	6,792,417
	39,701,965	37,550,536
Deduct dividends on common shares .....	1,451,718	1,264,855
Amount at end of year .....	\$38,250,247	36,285,681

*See accompanying notes to consolidated financial statements.*

### Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Emco Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

London, Ontario  
February 14, 1977

**Emco Limited**  
**Consolidated Statement of Changes**  
**in Financial Position**  
Year ended December 31, 1976  
with comparative figures for 1975

	1976	1975
Funds provided:		
Funds provided from operations .....	\$ 5,005,032	8,783,539
Issue of notes .....	15,042,500	—
Issue of common shares:		
Conversion of 7% debentures.....	100,890	7,687
Exercise of options and warrants.....	4,220	53,393
Assumption of mortgages .....	—	632,771
Proceeds on disposal of property and plant .....	272,558	54,702
Other .....	76,813	638,158
Total funds provided.....	20,502,013	10,170,250
Funds used:		
Property, plant and equipment.....	5,439,139	4,095,993
Reduction in long-term debt:		
7% debentures .....	181,000	8,000
Other.....	722,027	626,320
Dividends on common shares.....	1,451,718	1,264,855
Other .....	454,755	—
Total funds used.....	8,248,639	5,995,168
Increase in working capital .....	\$12,253,374	4,175,082
Working capital at end of year.....	\$47,832,601	35,579,227

*See accompanying notes to consolidated financial statements.*

# Emco Limited

## Notes to Consolidated Financial Statements

December 31, 1976

### (1) Accounting policies:

*Principles of consolidation:* The accompanying financial statements consolidate the accounts of all subsidiary companies. All material intercompany balances and transactions have been eliminated.

*Foreign currency transactions:* The accounts of the subsidiary companies located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt – at rates current at the year end; fixed assets – at rates current on dates of acquisition; accumulated depreciation and related provisions against income – on the basis of dollar value of related assets; and operating income and other expenses – at average rates for the year. Gains resulting from such translation practices are deferred and losses in excess of previously deferred gains, accounted for by country, are charged to earnings. Translation losses charged to earnings in 1976 amounted to approximately \$419,000 (1975, \$245,000).

The investment in consolidated net assets at December 31, 1976 was geographically distributed approximately as follows:

Canada and United States.....	\$37,295,000
Europe.....	4,244,000
Japan and Australia .....	1,517,000
Brazil.....	825,000

*Depreciation:* Depreciation is generally provided on a straight line basis over the estimated useful lives of the assets. Depreciation rates are as follows: buildings 2.5% and 5%; roadways 10%; machinery and equipment 10% and 20%.

*Amortization:* The unamortized debt discount and expense on the long-term debt is being amortized over the terms of the related debt using a sum of the digits method.

*Research and development expenses:* Costs associated with research and development of new products and improvements to existing products are expensed as incurred.

*Taxes on income:* The tax allocation basis of accounting for taxes on income is followed.

Certain subsidiaries suffered operating losses during the year which did not result in complete recovery of income taxes. The potential income tax benefits associated with such operating losses and with the operating losses of certain subsidiaries in prior years are not recognized in the accounts. These operating losses, which aggregate approximately \$1,100,000 are available to reduce taxable income which might otherwise be reported in certain future years. The availability of these losses for that purpose expires as to \$205,000 in 1977; \$17,000 in 1978; \$209,000 in 1979; \$343,000 in 1980 and \$326,000 in 1981.

There are also unused investment and foreign tax credits amounting to approximately \$100,000 which are available for future deduction.

*Earnings per share:* Earnings per share are calculated using the weighted daily average number of shares outstanding.

Fully diluted earnings per share are calculated on the assumption that all options and warrants outstanding at the end of the year were exercised at the beginning of the year; and that funds derived therefrom had been used to reduce bank indebtedness and related interest costs. The interest deducted less related income taxes was \$108,000 (1975, \$95,000).

### (2) Property, plant and equipment:

	1976	1975
Buildings and roadways .....	\$17,698,658	14,402,051
Machinery and equipment .....	14,948,983	13,424,339
	<u>32,647,641</u>	<u>27,826,390</u>
Less accumulated depreciation	15,120,959	13,871,952
	<u>17,526,682</u>	<u>13,954,438</u>
Land .....	3,464,213	3,270,661
	<u>\$20,990,895</u>	<u>17,225,099</u>

### (3) Long-term debt:

Emco Limited:	1976	1975
5 <sup>3</sup> / <sub>4</sub> % sinking fund debentures due June 15, 1985 .....	\$ 4,057,000	4,357,000
9 <sup>3</sup> / <sub>4</sub> % sinking fund debentures due July 15, 1990 .....	4,810,000	4,915,000
7% convertible sinking fund debentures due August 1, 1991 .....	—	181,000
Note due May 19, 1978 (U.S. \$5,000,000) .....	5,042,500	—
Note payable in instalments to December 16, 1986 .....	10,000,000	—
Interest on the above notes will change from time to time in relation to the lender's cost of borrowing. The interest rates in effect at December 31, 1976 were 7.94% and 10 <sup>5</sup> / <sub>8</sub> % respectively.		

#### Subsidiary Companies:

6% mortgage note payable in monthly instalments of principal and interest of \$3,583 U.S., due August 1, 1986 (U.S. \$311,985) .....	314,637	340,758
9% mortgage payable as to \$202,244 on March 10, 1976 and \$202,243 on March 10, 1977 .....	202,243	404,487
9% mortgage payable in monthly instalments of principal and interest of \$2,311, due October 1, 1989	212,532	221,092
	<u>24,638,912</u>	<u>10,419,337</u>
Less amounts due within one year included with current liabilities .....	400,751	320,649
	<u>\$24,238,161</u>	<u>10,098,688</u>

Long-term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1981, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, aggregates \$400,751 in 1977; \$5,809,919 in 1978; \$1,040,505 in 1979; \$1,102,281 in 1980 and \$1,154,258 in 1981.

#### (4) Capital stock:

*Authorized, issued and outstanding:*

	Number of Shares		
	Authorized	Issued and Outstanding 1976	1975
First preference shares with a par value of \$100 each .....	150,000	—	—
3% cumulative redeemable second preference shares with a par value of \$10 each .....	61,600	—	—
Common shares without par value .....	12,000,000	4,539,814	4,525,729

During 1976, 600 common shares were issued for a cash consideration of \$3,040 on the exercise of options, 150 common shares were issued for a cash consideration of \$1,180 on the exercise of warrants and 13,335 common shares were issued on conversion of \$105,000 principal amount of 7% convertible sinking fund debentures. The value assigned to the 13,335 common shares, after deduction of the related debenture discount, net of income taxes applicable thereto, was \$100,890.

*Share options:* At December 31, 1976, 173,625 common shares had been reserved for issuance under share option plans for certain key executives. Options expiring in 1977 on 3,525 common shares were outstanding at \$5.066.

*Share purchase plan:* During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1976, there were 128,145 shares available for future subscriptions. There were no transactions during 1976.

*Dividend restrictions:* The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1976 the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels. Particulars as to a further dividend restriction are set out in note 7.

*Conversion privilege:* There were 253,450 common share purchase warrants outstanding at December 31, 1976 entitling the holder to purchase one new common share for each warrant held. The warrants expire on August 1, 1980 and the exercise price for each warrant is \$7.87 to August 1, 1977 and \$8.93 thereafter.

The company has covenanted to reserve a sufficient number of common shares to be available for issue upon exercise of the common share purchase warrants.

#### (5) Directors and senior officers remuneration:

The aggregate direct remuneration paid or payable by the company to directors and senior officers was \$580,000 for the year ended December 31, 1976 (1975, \$680,000).

#### (6) Pension costs:

The company has no significant liability for past services under its pension plans.

#### (7) Anti-Inflation Act:

The company and certain of its Canadian subsidiaries are subject to the Anti-Inflation Act which provides, as from October 14, 1975, for restraint on profit margins, compensation to employees and dividends to shareholders. Management believes that the companies have complied with the provisions of this Act.

Under this Act, dividends on common shares of the company for the twelve months to October 13, 1977 cannot exceed \$2,315,000.

## Emco Limited

### Directors

John W. Adams, F.C.A.  
London, Ontario  
Executive Vice-President  
and Treasurer, Emco Limited

C. Norman Chapman  
London, Ontario  
President and  
Chief Executive Officer  
Emco Limited

W. Harold Evans  
Toronto, Ontario  
Retired Chairman  
Honeywell Limited

Peter J. Ivey  
London, Ontario  
President  
Cambarex Investments Limited

Frederick W. P. Jones  
London, Ontario  
Business Consultant

Wayne B. Lyon  
Taylor, Michigan  
Executive Vice-President  
Masco Corporation

Ralph S. MacLean  
London, Ontario  
Vice-President  
Plumbing and Industrial Group  
Emco Limited

Richard A. Manoogian  
Taylor, Michigan  
Chairman of the Board  
Emco Limited  
President Masco Corporation

Edwin C. Phillips  
Vancouver, British Columbia  
President  
Westcoast Transmission Company Limited

Dr. John Psarouthakis  
Taylor, Michigan  
Vice-President  
Masco Corporation

Arman R. Simone  
Wesport, Connecticut  
President  
Simone Corporation

Robert W. Stevens, Q.C.  
Toronto, Ontario  
Partner  
Blake Cassels & Graydon

David B. Weldon  
Toronto, Ontario  
Chairman of the Board  
Midland Doherty Limited

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### Officers

RICHARD A. MANOOGIAN  
Chairman of the Board

C. NORMAN CHAPMAN  
President and Chief Executive Officer

JOHN W. ADAMS, F.C.A.  
Executive Vice-President and Treasurer

JOHN G. BERESFORD  
Vice-President, Engineered Products Group

RALPH S. MacLEAN  
Vice-President, Plumbing and Industrial Group

STUART F. SMITH  
Vice-President, General Manufacturing Division

A. ROBERT MARTIN, F.C.A.  
Secretary and Vice-President, Emco Wheaton  
(International) Limited

W. WESLEY DeSHANE, C.A.  
Comptroller and Assistant Secretary

### Transfer Agents and Registrars

Royal Trust Company  
Toronto, Montreal and Winnipeg  
(5<sup>3</sup>/<sub>4</sub>% debentures);  
Toronto, Montreal, Winnipeg, Regina,  
Calgary and Vancouver  
(common shares and common share  
purchase warrants)  
The Canada Trust Company  
Toronto, Montreal and Winnipeg  
(9<sup>3</sup>/<sub>4</sub>% debentures)

### Auditors

Peat, Marwick, Mitchell & Co.  
London, Canada

## **Description of Business**

Emco's operations consist of two major product groups: the Plumbing and Industrial Group and the Engineered Products Group. The common denominator is the technology in the control of anything that flows.

### **Plumbing and Industrial Group**

From the four plants and 33 branches across Canada that make up the Plumbing and Industrial Group emerge more than 10,000 different plumbing and heating products ranging from relatively simple faucets to industrial components made to rigid specifications. The Supply operation of this group with a coast-to-coast network distributes products made by Emco and its subsidiary companies. In addition, it also handles complementary product lines made by other manufacturers.

### **Engineered Products Group**

The Engineered Products Group manufactures and distributes highly engineered fluid handling equipment used in oil and petrochemical industries around the world. The products, offered under the Emco Wheaton name, range from service station nozzles and fleet fueling systems to tank truck loading assemblies, marine loading arms and bunkering units to vapor recovery systems. These Emco Wheaton products reach world markets through plants in England, France, West Germany, Japan, Australia, Brazil, the U.S.A. and Canada. Supporting the manufacturing operations is a Research and Development Centre at Margate in England.

### **Annual Meeting**

The Annual Meeting of the Shareholders will be held at the Holiday Inn, London, City Centre Tower, 300 King St., London, in the Victoria/Albert Room, at 10:30 A.M. on May 12, 1977.

## Description of Business

Business operations consist of manufacturing and marketing of products under the name of the company and its subsidiaries. The common denominator in the business is the control of everything that is done.

The company is a public company and its shares are listed on the Toronto Stock Exchange.

Canada has made up the business and industrial group in every sense of the word.

Industrial group is made up of the following companies and their subsidiaries:

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# EMCO LIMITED

Box 5300, London, Canada N6A 4N7

*Subsidiaries in Australia/Brazil/Canada/France/Great Britain/Japan/United States/West Germany*